1968
AND FIRST QUARTER 1969

DOME PETROLEUM LIMITED ANNUAL REPORT

DOME PETROLEUM LIMITED

DIRECTORS

NORMAN J. ALEXANDER, *Winnipeg, Manitoba*
Managing Partner; Richardson Securities of Canada

HENRY C. BRUNIE, *New York, N.Y.*
Vice-Chairman of the Board; The Bank of New York

JOHN P. GALLAGHER, *Calgary, Alberta*
President of the Company

JOHN L. LOEB, *New York, N.Y.*
Partner; Loeb, Rhoades & Co.

BRYCE R. MACKENZIE, *Toronto, Ontario*
Senior Partner; Fasken & Calvin

CHARLES E. MAIN, *New York, N.Y.*
Director; The Clark Estates, Inc.

A. BRUCE MATTHEWS, *Toronto, Ontario*
Chairman of the Board; The Excelsior Life Insurance Company

CLIFFORD W. MICHEL, *New York, N.Y.*
Chairman of the Board; Dome Mines Limited;
Partner; Loeb, Rhoades & Co.

WILLIAM F. MORTON, *Winchester, Mass.*
Investment Manager

JAMES B. REDPATH, *Toronto, Ontario*
President; Dome Mines Limited

ANNUAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario, on April 28, 1969, at 12:00 o'clock noon. A formal notice of meeting and proxy form are enclosed with this report.

FRONT COVER
Running casing on Dome et al Claresholm #6-6 — a 1968 oil discovery.

OFFICERS

CLIFFORD W. MICHEL, *Chairman of the Board*

JOHN P. GALLAGHER, *President*

CHARLES S. DUNKLEY, *Vice-President*

JAMES B. REDPATH, *Vice-President*

WILLIAM E. RICHARDS, *Vice-President and Secretary*

DONALD M. WOLCOTT, *Vice-President*

HENRY T. ASTLE, *Treasurer*

FRASER M. FELL, *Assistant Secretary*

HEAD OFFICE

706 - 7TH AVENUE S.W., *Calgary 2, Alberta*

REGISTRARS AND TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY
Toronto, Ontario; Montreal, Quebec; Calgary, Alberta
THE BANK OF NEW YORK
New York, N.Y.

GENERAL COUNSEL

FASKEN & CALVIN
Toronto Dominion Bank Tower, Toronto, Ontario

AUDITORS

CLARKSON, GORDON & CO.
Calgary, Alberta

STOCK LISTED

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

COMPARATIVE HIGHLIGHTS

FINANCIAL	1968	1967	1966
Gross Income (after royalties)	$24,561,204	$21,769,254	$17,848,409
Cash Flow (after cost of product, operating, administrative and interest expenses)	$14,451,834	$12,160,626	$ 9,718,340
Cash Flow per share	$4.31	$3.66	$2.94
Net Income (after all charges)	$10,077,973	$ 8,360,922	$ 6,423,825
Net Income per share	$3.00	$2.51	$1.94
Shares Outstanding	3,356,865	3,324,677	3,307,700
Working Capital Deficit	$ 305,909	$ 5,144,754	$ 2,331,487
Long Term Debt	$38,227,981	$29,270,119	$23,978,287

OPERATING	1968	1967	1966
Oil and Natural Gas Liquids Production (net barrels)	6,259,450	5,757,849	4,972,284
Gas Production (billion cubic feet)	51.8	43.7	37.2
Proved Oil and Condensate Reserves (net barrels)	73,300,000*	61,890,000*	59,267,000*
Proved Gas Reserves (billion cubic feet)	1,100*	1,011*	919*
Wells Drilled	134	102	104
Land — Gross Acres	19,593,390	13,268,294	7,504,166
Land — Net Acres	15,931,523	11,003,613	5,212,851

* *Excludes Zama and other confidential reserves.*

REPORT OF THE DIRECTORS

2 **TO THE SHAREHOLDERS**

The period under review indicates continued expansion in all phases of the Company's operations. The following are the highlights:

- **Gross income** for 1968 increased 13% to \$24,561,204, cash flow increased 19% to \$14,451,834 (\$4.31 per share) and net income increased 21% to \$10,077,973 (\$3.00 per share).

  Income for the first quarter of 1969 was approximately the same as in the first quarter of 1968 with increased production offset by lower product prices. Gross income was \$6,527,000 compared with \$6,564,000. Cash flow increased slightly to \$3,891,000 (\$1.16 per share) from \$3,857,000. Net income also showed a minor increase to \$2,719,000 (81¢ per share) from \$2,703,000.

- **Production** of oil, natural gas liquids and oil equivalent of gas increased 16% in 1968 to 24,615 barrels per day.

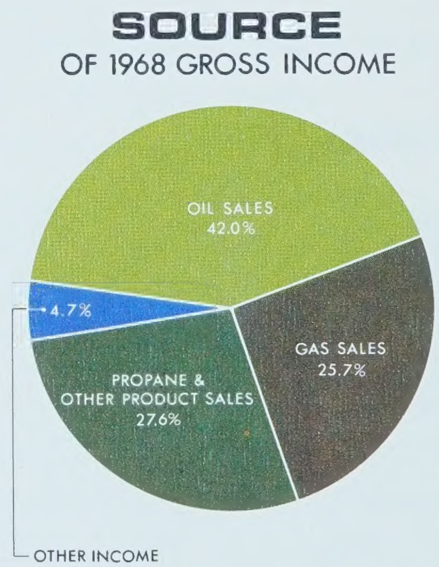
  Combined production in the first quarter of 1969 increased 6% to 25,800 barrels per day.

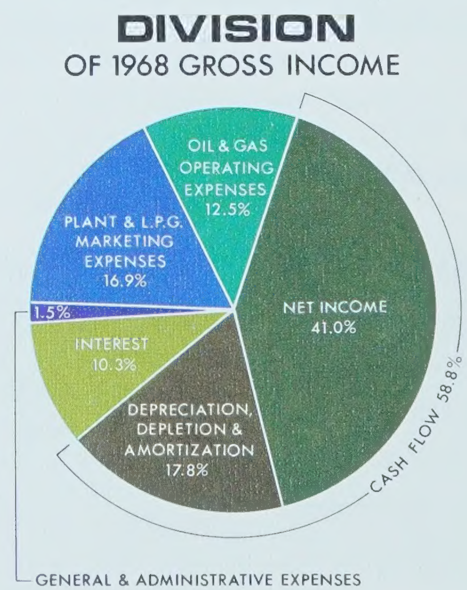
- **Proved reserves** (after deducting 1968 production and excluding Zama and other confidential reserves) increased 18% to 73,300,000 net barrels of oil and 9% to 1,100 billion cubic feet of gas.

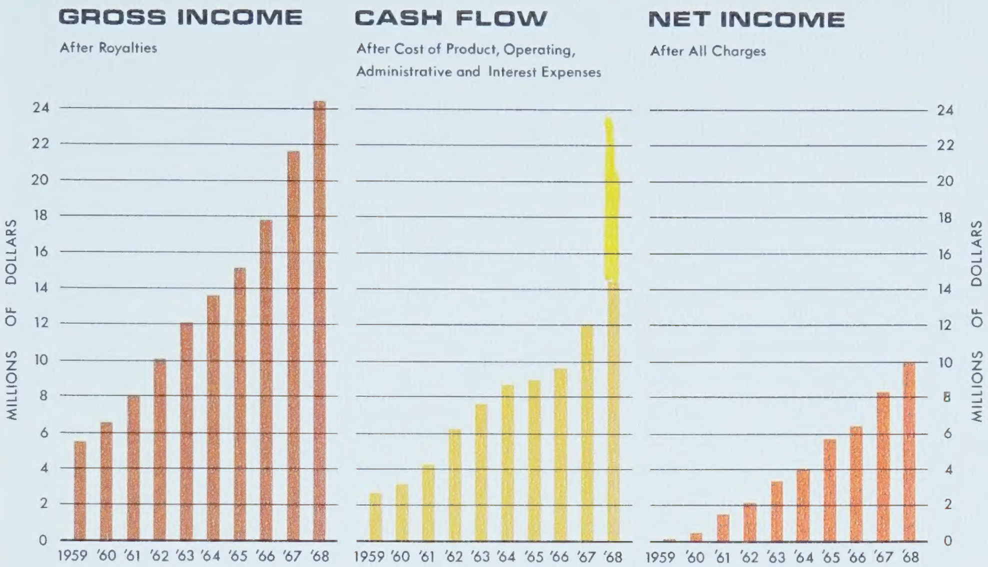
- **Drilling activity** in 1968 totalled 134 wells including 40 oil wells and 33 gas wells.

  In the first quarter of 1969, 3 oil wells and 4 gas wells were completed.

- **Land holdings** increased to 18,000,000 net acres as at March 31, 1969. The areas of principal interest are the Canadian Arctic







Islands, offshore and onshore Mackenzie Delta, offshore Canadian East Coast, Hudson Bay and Southern Alaska.

Much of the exploration work on these lands will be conducted under farmout arrangements whereby all exploration expenditures are made by other companies to earn an interest in the acreage.

- Two arrangements were entered into during the period for the construction of gas absorption plants, associated pipelines and fractionation facilities. A plant utilizing the Alberta and Southern gas stream is currently under construction at Cochrane, Alberta, and is scheduled to commence operations in 1970. A plant processing Trans-Canada's gas is programmed to go on stream in 1971 at Empress, Alberta. When on full production, the two plants will produce 26,000 barrels of liquids per day, of which Dome's share will amount to 13,000 barrels per day.

  The full cost of these facilities has been completely financed by a two-year bridge financing and an eight-year term bank loan refundable without premium. Interest rate is 1% over prime rate.

- Your Company has broadened its scope of operations during the past year by joining with its associate, Dome Mines Limited, in a joint mineral exploration program throughout Canada. Dome holds a 33% participation in this long-term program in which a total of 174 mining claims have already been filed near new mineral discoveries.

The recent major oil discovery at Prudhoe Bay on the North Slope of Alaska substantiates your Company's long-term exploratory acreage position in the Canadian Arctic where Dome currently holds over 8,000,000 net acres. The favourable geological and stratigraphic conditions found on the North Slope are present in both the Mackenzie Delta and the Arctic Islands sedimentary basins where our acreage is located.

The outlook for the petroleum industry is largely influenced by market prospects. Demand for Canadian natural gas continues to exceed supply and this condition is resulting in rising natural gas prices to the producer and earlier marketing of new discoveries. Allowables for Alberta crude oil are relatively low, although production from the other western Provinces is close to capacity. Dome's oil production from Alberta represents only 37% of its total oil production.

The great petroleum potential in the Arctic areas of Alaska and Canada indicates the urgent need for a North American continental oil policy, which would remove all tariffs and restrictions preventing the natural flow of North American crude oil to its most economic markets. The adoption by Canada of a continental oil policy would imply the acceptance by Canada of the same restrictions on the importation of offshore crude oil currently applicable in the United States. Your Company is maintaining close contact with the Canadian Government in the hope of advancing this principle.

Your Directors again wish to acknowledge the major contributions made by all of our employees toward the continued growth of the Company.

C. W. MICHEL
Chairman of the Board

J. P. GALLAGHER
President

April 2, 1969.

Dome's Claresholm well, drilling 70 miles southwest of Calgary. This oil discovery was one of 82 exploratory wells drilled by Dome in 1968.

REVIEW OF 1968 OPERATIONS

PRODUCTION

Net oil, condensate and natural gas liquids production in 1968 increased 9% to 6,259,450 barrels (17,102 barrels per day) from 5,757,849 barrels (15,775 barrels per day). Increased production from newly developed wells in the Zama and Willesden Green areas, Alberta, accounted for a substantial portion of this increase.

Gas production in 1968 increased 18% to 51.8 billion cubic feet (141.6 million cubic feet per day) from 43.7 billion cubic feet (119.7 million cubic feet per day). The bulk of this increase came from new production in the Vulcan and Lone Pine areas of Alberta.

Sulphur production in 1968 more than doubled to 13,841 long tons from 6,353 long tons.

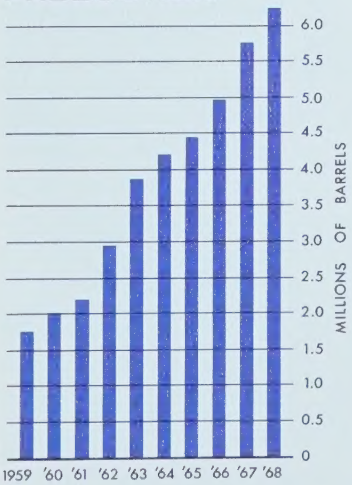
At year-end, Dome held interests equivalent to 414 net producing oil wells and 168 net producing gas wells, plus royalty interests in 95 producing oil or gas wells.

RESERVES

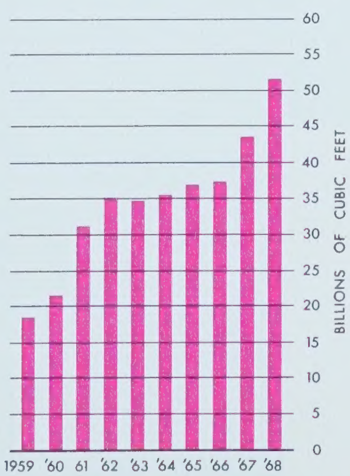
Net proved recoverable oil and condensate reserves as at December 31, 1968, were estimated to be 73,300,000 barrels after deducting all royalties, 1968 production, all Zama and other confidential reserves, all probable reserves and the heavy gravity oil reserves at Hughenden. This represents an 18% increase from the 61,890,000 barrels at the end of 1967. Proved recoverable natural gas reserves (also after 1968 production and excluding Zama) increased 9% to 1,100 billion cubic feet from 1,011 billion cubic feet in 1967.

Year-end sulphur reserves were estimated at 248,000 long tons, compared with 145,000 long tons at the previous year-end.

OIL & NATURAL GAS LIQUIDS PRODUCTION



GAS PRODUCTION



PROVED RESERVES

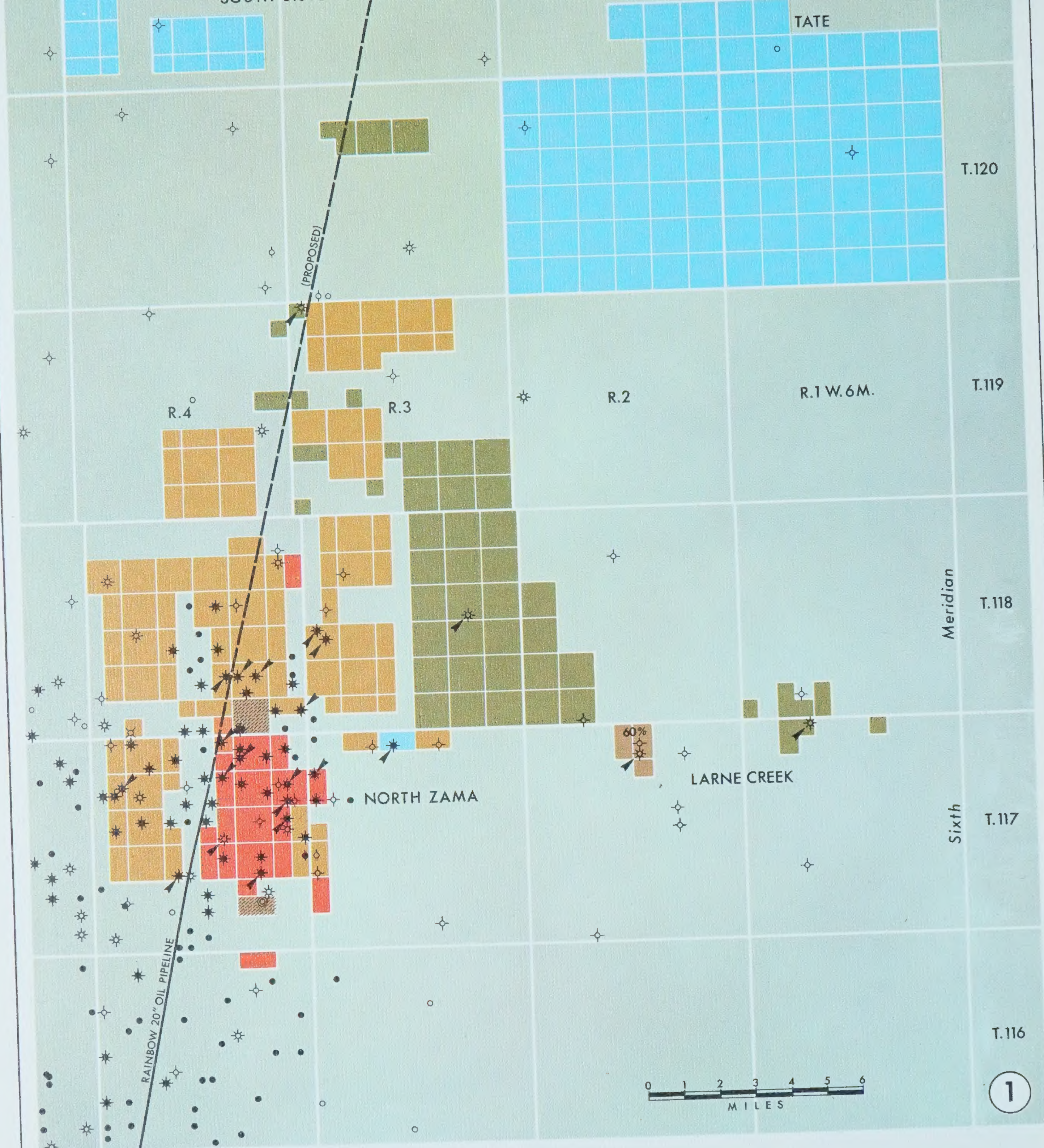
OIL & OIL EQUIVALENT OF GAS

• Net reserves after royalties and partners' interests.

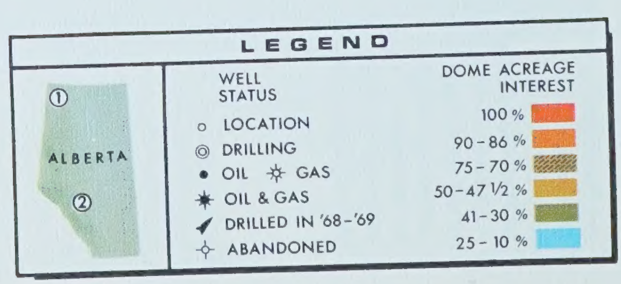
• Gas reserves and production converted to barrels using a price equivalent ratio of 18,000 cubic feet per barrel.

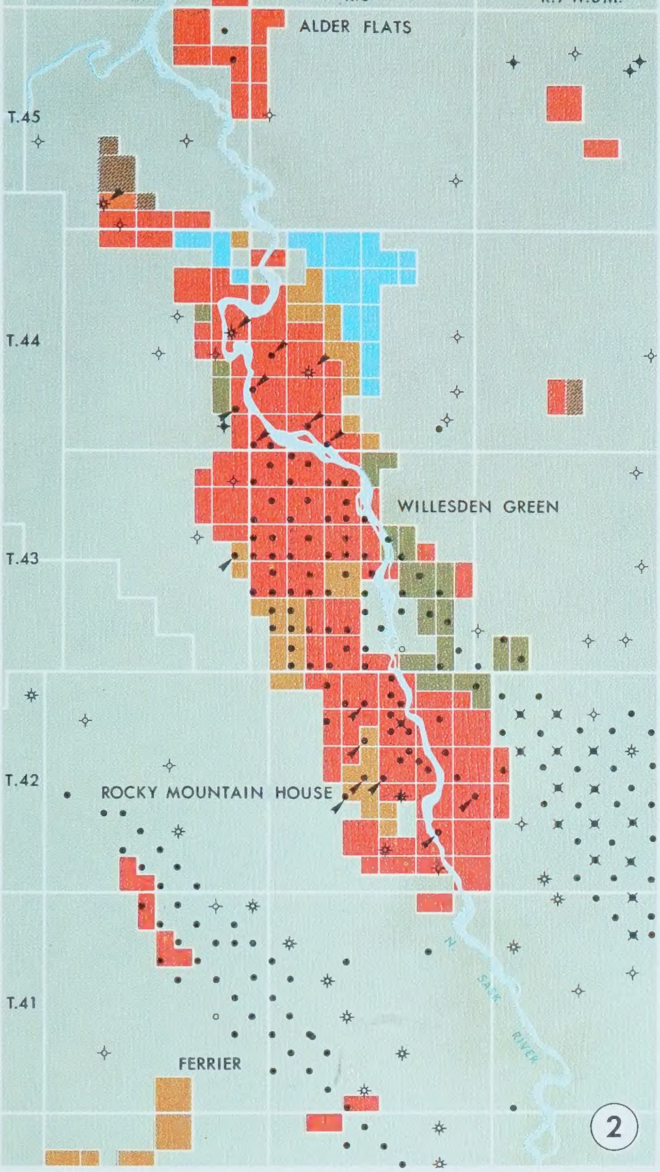
*Redwater oil reserves were sold for $8,742,000.

**Excluding North Zama reserves.



NORTH ZAMA
NORTHWEST ALBERTA





WILLESDEN GREEN
WEST CENTRAL ALBERTA

DRILLING

In 1968, Dome participated in drilling a total of 134 wells, including 82 exploratory wells, 27 step-out wells and 25 development wells. These resulted in the completion of 40 oil wells (26.3 net), 33 gas wells (26.0 net) and 61 dry holes (35.0 net). The successful wells included 32 exploratory wells, 18 step-out wells and 23 development wells. Ten of the dry holes were drilled under farmout at no cost to Dome.

In the Zama area, 17 oil wells and 5 gas wells were drilled on Dome-interest acreage during 1968 to increase the Company's holdings in this area to 39 oil wells (27.4 net) and 10 gas wells (6.0 net) at year-end. The majority of the oil wells are also dual-zone gas producers.

Drilling in the Willesden Green area during 1968 resulted in the completion of 14 oil wells and 3 gas wells on Company acreage. At year-end, Dome owned 78.6 net oil producers and 3 net gas producers in this field. Pressure maintenance equipment is currently being installed to enhance oil recovery. Step-out and development drilling is continuing.

In the Provost/Brownfield area, 8 successful exploratory gas producers were completed in 1968, increasing the Company's reserves and acreage in the area. During the year, 10 new development wells were completed in the Provost Viking Gas Unit.

Development drilling on Dome acreage in the Willesden Green field where the Company completed 14 oil wells and 3 gas wells in 1968.

8

Seismic charge being fired in a 1968 Dome exploration program in the Longview area of the Alberta foothills. During the past few years, Dome's greater emphasis on exploration has resulted in a six-fold increase in its seismic and other geophysical programs.

EXPLORATION AND LAND

During the period under review, 5 significant discoveries were drilled; namely an oil discovery at Claresholm in southern Alberta and 4 gas discoveries, one at LaGarde, one at Silver, and one at Helmet, all in northeastern British Columbia and one at Castor in Alberta. These exploratory successes will be evaluated in 1969.

During the period ending March 31, 1969, the Company increased its land holdings to 18,000,000 net acres. This increase represents the acquisition of substantial acreage blocks in the following new exploration projects:

MACKENZIE DELTA

Dome's holdings in the offshore Mackenzie Delta area were increased by 686,000 acres in 1968 to 2,230,000 net acres. This area is 250 miles east of the Prudhoe Bay oil discovery on the Arctic coast of Alaska. A farmout of this acreage was negotiated in late 1968 with Hunt International Petroleum Company of Canada. Hunt earns an effective 17.3% interest in Dome's offshore permits by conducting seismic surveys and drilling a 12,000-foot commitment well by 1973. These expenditures must be sufficient to carry 70% of the total permits for 12 to 14 years and the remainder for 3 years, all at no cost to Dome.

MACKENZIE BASIN

Dome owns an additional 626,000 net acres onshore in the Mackenzie Basin on which limited seismic surveys were conducted during the past winter. Additional work is contemplated in this general area where an extensive exploratory drilling program is being carried out by industry.

HUDSON BAY

Dome acquired 1,456,000 net acres in the offshore Hudson Bay sedimentary basin last year, in an area of major oil company holdings. The first offshore well in the region is scheduled to be spudded by the Aquitaine group this summer.

EAST COAST

A third group of offshore permits, totalling 2,081,000 net acres, was acquired off Canada's East Coast. Initial exploration will be marine seismic. Considerable exploratory drilling is planned for this area by the many companies participating in the play.

NORTHWESTERN BRITISH COLUMBIA

Dome is currently drilling a 10,000-foot exploratory well on its 75% interest, 3,123,000-acre permit block in an unexplored area known as Bowser Basin. Geological studies were completed during 1968, indicating the presence of a thick marine sedimentary section and a number of drillable structures. The first location is approximately 30 miles east of deep water port facilities on the Pacific Coast of British Columbia.

ALBERTA

Dome has an active exploratory program currently underway in Alberta, with the areas of principal interest as follows:

Cutbank — where 2 seismic parties are surveying a 90,000-acre option block, 25 miles south of the Gold Greek gas field.

McLeod West — where Dome is participating in a 16,000-foot exploratory well to test a potential reef in this area where it holds interests in 96,000 acres.

Winchell/Cochrane — where Dome is drilling an exploratory well to test the gas prospects on 11,000 acres of lease.

Quirk Creek/Longview — where test wells are planned on these excellent gas prospects covering 4,320 Dome-interest acres.

These 4 areas are indicated on the map of Western Canada (page 12).

SOUTH ALASKA

The Company has filed on 275,000 onshore lease acres in the Gulf of Alaska area. This readily accessible sedimentary basin has numerous oil seeps and previously drilled wells near these lands have encountered significant oil and gas shows.

ARCTIC ISLANDS

Dome owns 5,784,000 acres in the Arctic Islands, of which 2,616,000 have been farmed out to Panarctic Oils Ltd. Under Dome's farmout, Panarctic has a commitment to drill 2 deep tests on Dome land plus an option to drill 2 additional deep tests. If all 4 wells are drilled, Panarctic will earn a 50% interest in 2,432,000 acres. This would result in the disposition by Dome of 21% of its total Arctic Islands acreage.

PANARCTIC OILS LTD.

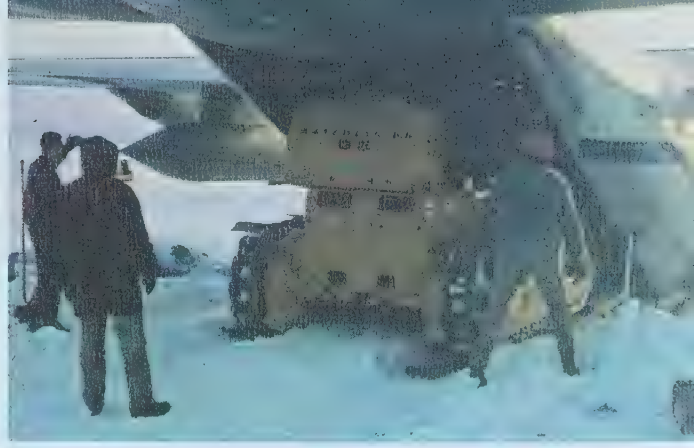
Dome holds a 4.06% interest in Panarctic and in 1968 completed its first year as operator of Panarctic's $20,000,000 exploration program covering 50,000,000 acres in the Canadian Arctic Islands.

Two rigs have been moved to the drill sites on Melville Island. The first test well in Panarctic's 17-well drilling program is scheduled to start drilling by mid-April and will be drilled to a depth of at least 10,000 feet at Drake Point on Melville Island. This site is approximately 12 miles north of a 310,000-acre Dome lease block. The second well is scheduled to spud in early May and drill to below 6,000 feet at Sandy Point on northwest Melville Island. These first wells will be followed by a continuous drilling program using a minimum of 2 rigs.

Approximately 700 miles of seismic work is programmed for 1969 on the northern and northeastern segments of Panarctic's acreage holdings, prior to the selection of future drill sites.

The Mackenzie River Delta and the Arctic Coast in mid-summer. The Delta area has become the centre of major exploration interest as a result of the oil discoveries on the North Slope of Alaska to the west.

Fold Out for East Portion of Map ➤



Fold Out for East Portion of Map

DOME AND PANARCTIC ACREAGE
in the

ARCTIC ISLANDS AND MACKENZIE DELTA

NORTHWEST TERRITORIES

100 0 100 200
MILES

DOME ACREAGE
PANARCTIC ACREAGE
Area of proposed 1969 Seismic

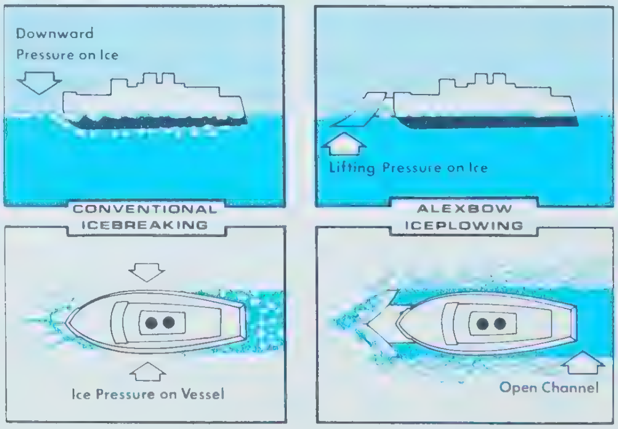
Panarctic operations. Left: A Hercules aircraft landing on Melville Island. This is the basic long-range air transport used in this project. Centre: Unloading a 20-ton Caterpillar tractor from a Hercules. Right: Airlifting a helitractor. This highly portable unit is the standard vehicle used by the seismic parties for ground transportation.

Panarctic's Alexbow-equipped barge, launched in July, 1968. This is one of two barges used to supply the Panarctic project last summer for which it was especially equipped with an Alexbow device to give it icebreaking capabilities.

As shown below, the device breaks ice by plowing it with a lifting action from below instead of the normal icebreaking technique of crushing the ice downward with the weight of the vessel. The Alexbow also leaves a relatively ice-free channel which reduces the possibility of damage to the ship.

Panarctic has acquired a 51% interest in Alexbow Canada Ltd.

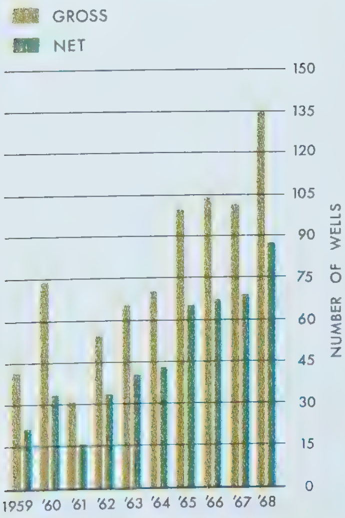
COMPARATIVE ICEBREAKING METHODS



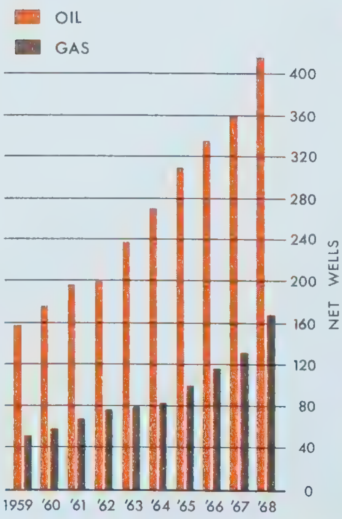
LAND HOLDINGS

	December 31, 1968		December 31, 1967	
	Gross Acres	*Net Acres*	*Gross Acres*	*Net Acres*
Alberta	2,590,823	1,619,726	2,582,276	1,865,425
British Columbia	4,381,390	2,551,957	535,437	237,591
Manitoba	92,465	49,929	85,690	50,289
Northwest Territories	10,926,076	10,420,766	8,787,899	7,664,871
Ontario	4,987	4,987	4,987	4,987
Saskatchewan	1,208,205	927,675	1,135,671	1,076,689
Alaska	275,444	275,444	—	—
Other United States	114,000	81,039	136,334	103,761
Total	19,593,390	15,931,523	13,268,294	11,003,613

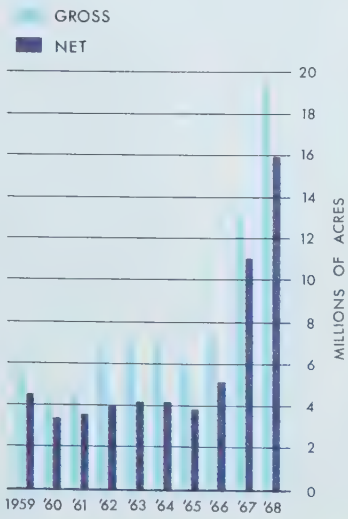
WELLS DRILLED



NET PRODUCING WELLS



LAND HOLDINGS



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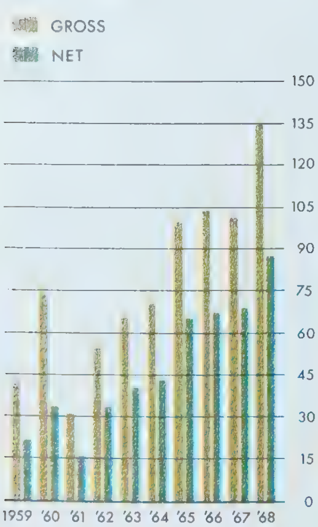
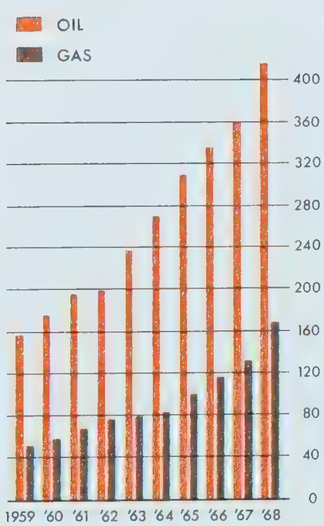
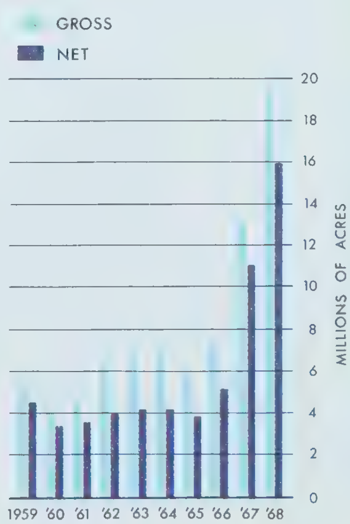
WELLS DRILLED

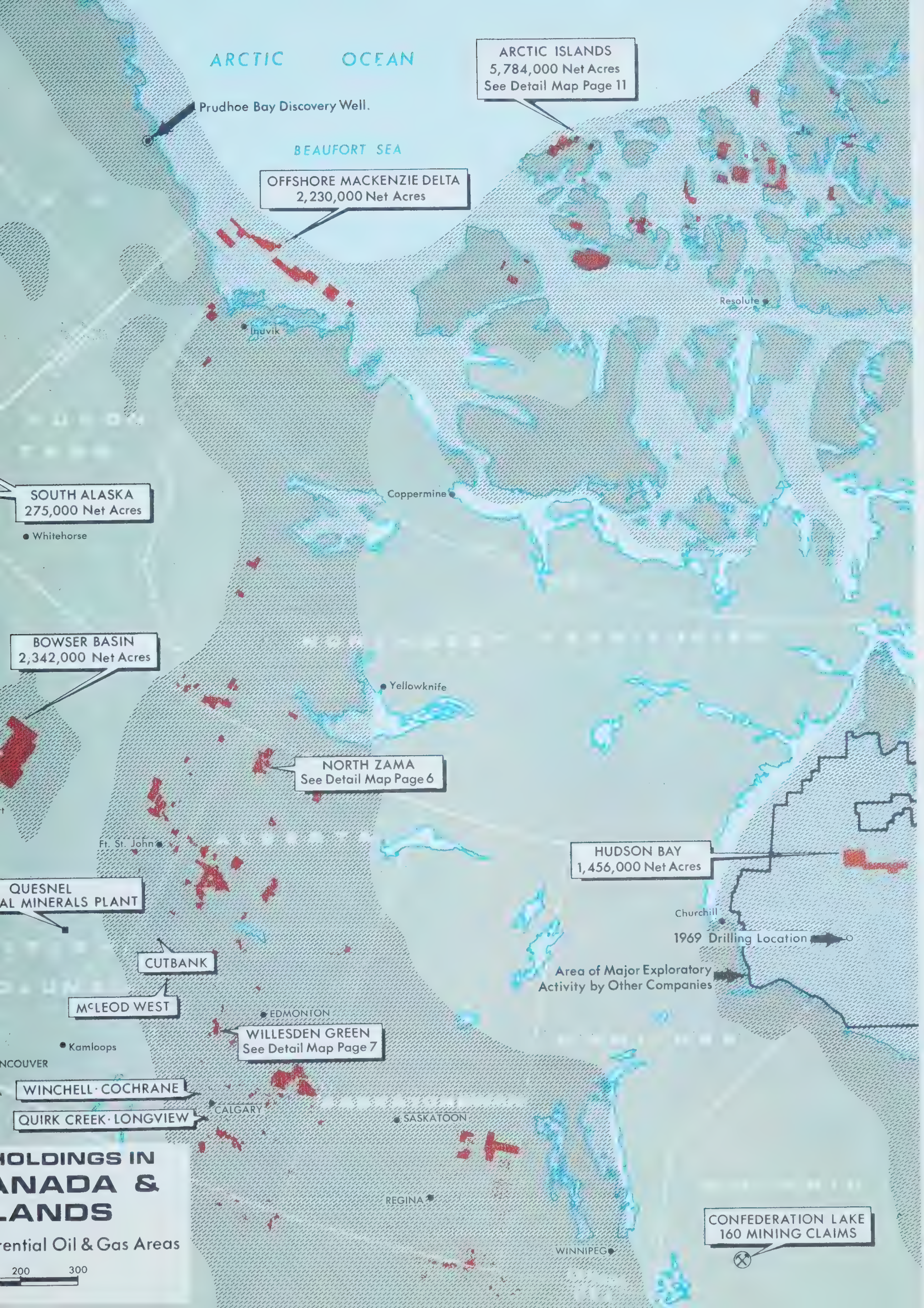


NET PRODUCING WELLS

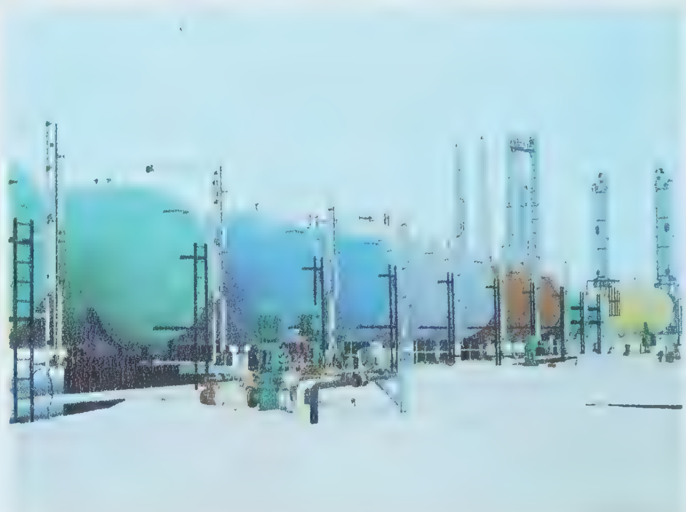


LAND HOLDINGS





ARCTIC OCEAN
ARCTIC ISLANDS
5,784,000 Net Acres
See Detail Map Page 11
Prudhoe Bay Discovery Well.
BEAUFORT SEA
OFFSHORE MACKENZIE DELTA
2,230,000 Net Acres
Inuvik
Resolute
SOUTH ALASKA
275,000 Net Acres
Whitehorse
Coppermine
BOWSER BASIN
2,342,000 Net Acres
Yellowknife
NORTH ZAMA
See Detail Map Page 6
Ft. St. John
HUDSON BAY
1,456,000 Net Acres
QUESNEL
AL MINERALS PLANT
Churchill
1969 Drilling Location
CUTBANK
Area of Major Exploratory
Activity by Other Companies
McLEOD WEST
EDMONTON
WILLESDEN GREEN
See Detail Map Page 7
Kamloops
NCOUVER
WINCHELL · COCHRANE
CALGARY
QUIRK CREEK · LONGVIEW
SASKATOON
HOLDINGS IN
ANADA &
LANDS
ential Oil & Gas Areas
REGINA
CONFEDERATION LAKE
160 MINING CLAIMS
WINNIPEG
200
300



Top: The processing section of the Lone Pine gas plant (Dome interest 22%). Left: Dome's wholly-owned Vulcan gas processing plant completed early in 1968. Above: A winter view of the Company's Edmonton plant which was substantially expanded during the past year.

PROCESSING

ALBERTA AND SOUTHERN LPG PLANT

This major natural-gas-liquids extraction plant at Cochrane, Alberta, is scheduled for completion in early 1970 and is being built by Alberta Natural Gas Company on a cost of service basis for Dome and Pan American Petroleum. This plant will remove propane, butanes and condensate from the billion cubic foot per day gas stream of Alberta and Southern Gas Co. Ltd. The initial production of 11,000 barrels per day will be owned in equal shares by Dome and Pan American. It will be transported by pipeline to terminal facilities at Edmonton and then east via Interprovincial's pipeline to fractionation facilities that will be built by Dome and Pan American at Sarnia, Ontario, and Superior, Wisconsin. The products from these fractionation plants will serve markets in Eastern Canada and the United States.

TRANS-CANADA LPG PLANT

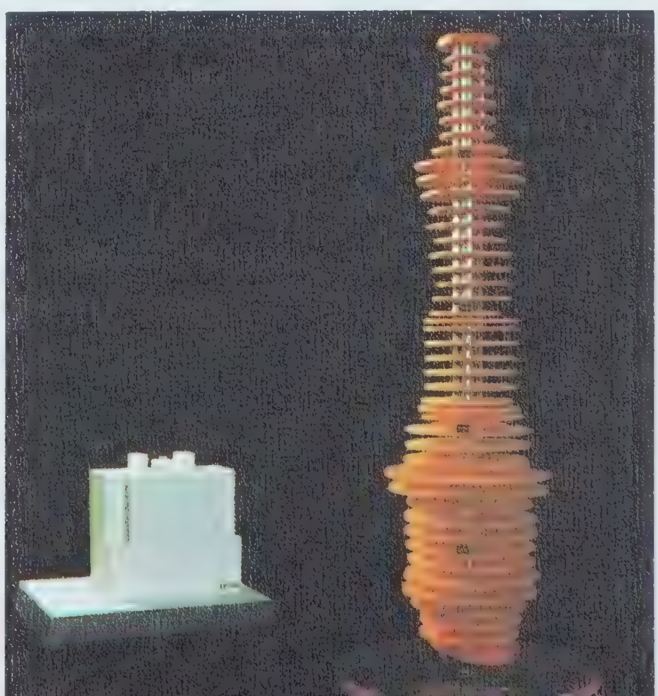
Dome and Trans-Canada Pipe Lines Limited have reached an agreement for the construction of facilities at Empress, Alberta, to extract natural gas liquids from the 1.5 billion cubic foot per day Trans-Canada gas stream. The plant's capacity is scheduled at 15,000 barrels per day of propane, butanes and natural gasoline. Product from this plant will also be pipelined to the Interprovincial system where it will be injected into the liquids moving east from Dome and Pan American's Edmonton terminal for fractionation at Sarnia.

COLEVILLE

During 1968, Dome completed a gas processing plant in the Coleville area of western Saskatchewan under an agreement with Saskatchewan Power Corporation. The plant is extracting 500 barrels per day of natural gas liquids from the gas stream owned by Saskatchewan Power. These liquids will be moved east through the Interprovincial Pipe Line system.

In addition to these new developments, Dome operates 4 other gas processing plants at Edmonton, Provost and Vulcan in Alberta and Steelman in Saskatchewan.

On the right is a model of one of Dome's 5 underground propane storage caverns at Melville, Saskatchewan, compared to a model of a 10-storey office building on the same scale. Each layer on the model shows the width of the continuous cavern at different intervals in the cavern's 450-foot depth. This particular cavern has been washed out of a salt formation 3,500 feet below ground and is capable of holding 15,000,000 gallons of propane.

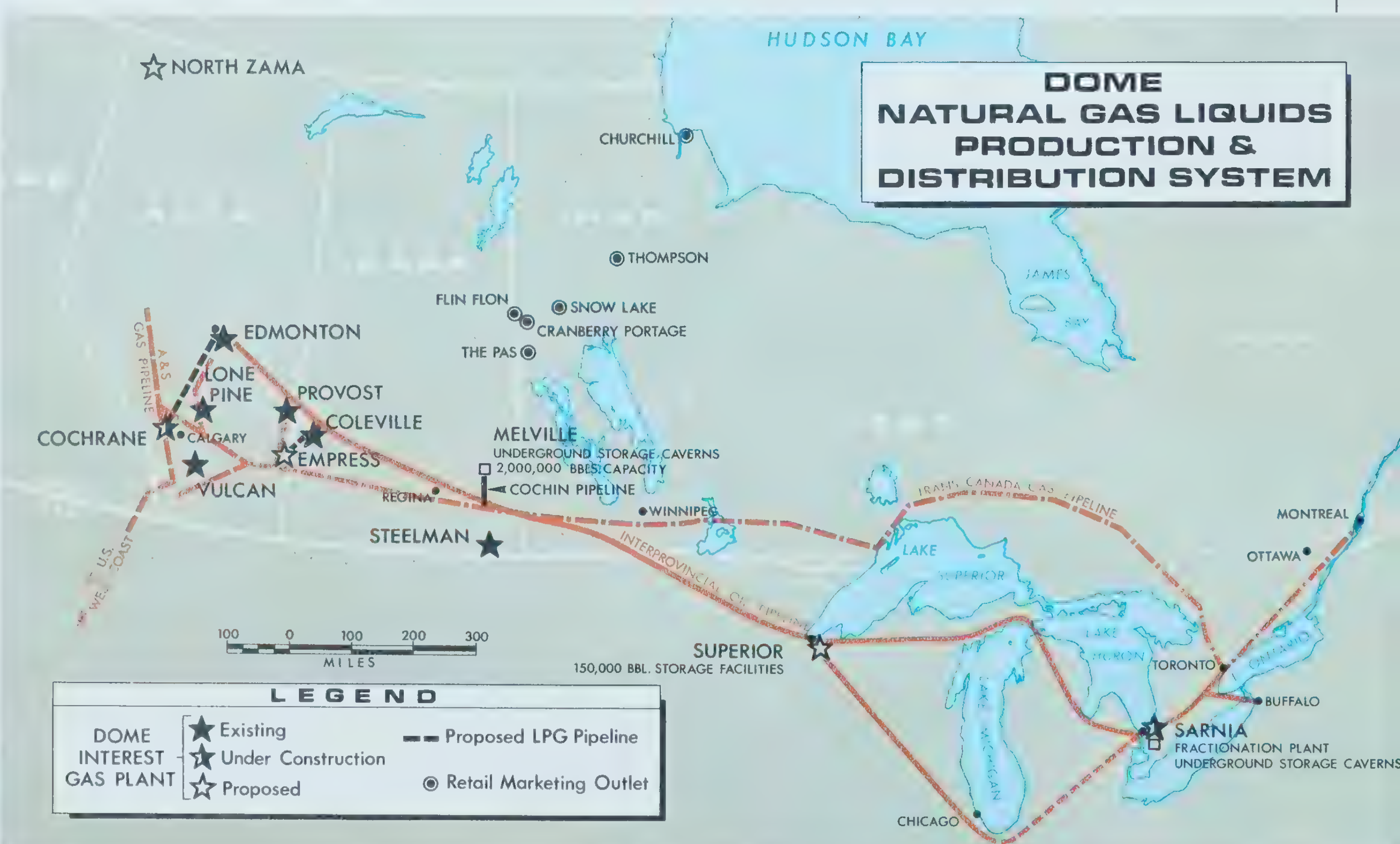


It also holds participating interests in 6 additional gas plants in Western Canada.

L. P. GAS STORAGE

The Company operates a products pipeline serving its underground storage facilities at Melville, Saskatchewan. These facilities consist of 5 storage wells with a total capacity of approximately 70,000,000 Canadian gallons. The Melville facilities are used to store surplus summer production for sale during the high-demand winter season. These storage caverns are operating at capacity and are being continuously expanded.

Additional major underground storage facilities are currently being developed at the Sarnia site of the Company's fractionation plant.



INDUSTRIAL MINERALS

Dome's wholly-owned subsidiary company, Crownite Industrial Minerals Ltd., is constructing a $1,500,000 industrial minerals plant at Quesnel in central British Columbia. The proposed plant will utilize the Company's large deposits of diatomaceous earth, pozzolan shale, mica and other industrial minerals in the general Quesnel area and is designed so that it will be readily expandable with market growth. A contract has been arranged with Canadian Industries Limited under the terms of which that company becomes the marketing agent for all of the plant's production. Canadian Industries is one of Canada's largest marketers of chemicals and industrial minerals.

FINANCIAL

The 1968 gross income after all royalties increased 13% to $24,561,204 from $21,769,254 in the previous year.

Cash flow (gross income less cost of product, operating, administrative and interest expenses) increased 19% to $14,451,834 ($4.31 per share) from $12,160,626 ($3.66 per share) in 1967.

Net income (after all charges) increased 21% in 1968 to $10,077,973 ($3.00 per share) from $8,360,922 ($2.51 per share).

Earned surplus at December 31, 1968, increased to $46,399,582 from $36,321,609 last year.

At year-end the Company's investments in other oil, gas and pipeline companies cost $909,607 and had a market or appraised value of $5,300,000. These investments include 47,041 shares of Producers Pipelines Ltd. which cost $304,722 and had an appraised value of $2,300,000.

Under Canadian income tax law, the Company is entitled to deduct from income all drilling, exploration, lease acquisition costs and capital cost allowances, and carry forward all amounts which exceed the income of the year incurred. As of December 31, 1968, accumulated expenditures and capital cost allowances totalling $45,000,000 were available to be carried forward and applied against future taxable income.

On May 15, 1968, the Company sold to Dome Mines Limited and its affiliates $15,000,000 of 5% Redeemable Convertible Income Debentures secured by a subordinate floating charge. The Debentures are for a 20-year term, convertible at $84.75 per share and are redeemable at 105% any time after May 15, 1973. Proceeds were used to reduce bank loans and improve working capital position.

In order to finance the Company's share of the facilities and pipelines associated with the 2 major gas absorption plants, the Company arranged a $26,000,000 bank loan to be drawn down over the next 2 years and repaid over the subsequent 8 years. This loan is secured solely by the facilities to be built and is refundable without premium. The interest rate on this loan is 1% above the prime bank rate.

An additional $10,000,000 of bank credit has been arranged, partially at the prime bank rate and the remainder on a term basis at ½ of 1% over the prime rate. This credit is available for exploration, land and drilling expenditures.

CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1968 AND 1967

	1968	1967
INCOME:		
Oil and gas sales after royalties	$16,633,255	$14,134,792
Propane and other product sales	6,768,777	7,128,936
Other income	1,159,172	505,526
	24,561,204	21,769,254
DEDUCT:		
Operating expenses	5,322,469	4,668,665
Cost of propane and other products sold	1,904,759	2,275,459
General and administrative expenses	361,505	481,277
Interest	2,520,637	2,183,227
	10,109,370	9,608,628
CASH INCOME FROM OPERATIONS	14,451,834	12,160,626
DEDUCT:		
Depletion	2,266,407	1,931,125
Depreciation	2,023,922	1,795,484
Amortization	83,532	73,095
	4,373,861	3,799,704
NET INCOME FOR THE YEAR (Notes 2 and 7)	$10,077,973	$ 8,360,922

CONSOLIDATED STATEMENT OF EARNED SURPLUS

YEARS ENDED DECEMBER 31, 1968 AND 1967

	1968	1967
EARNED SURPLUS AT BEGINNING OF YEAR	$36,321,609	$27,960,687
Net income for the year	10,077,973	8,360,922
EARNED SURPLUS AT END OF YEAR	$46,399,582	$36,321,609

See accompanying notes.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEARS ENDED DECEMBER 31, 1968 AND 1967

	1968	1967
SOURCE OF FUNDS:		
Cash income from operations	$14,451,834	$12,160,626
Proceeds from issue of 5% Convertible Income Debentures	15,000,000	—
Proceeds from term bank loans	—	10,200,000
Proceeds from sale of properties	—	1,219,837
Proceeds from issues of capital stock	180,014	309,890
	29,631,848	23,890,353
APPLICATION OF FUNDS:		
Expenditures for property, plant and equipment	18,369,065	21,470,721
Reduction of long term debt	6,042,138	4,908,168
Increase in other assets	381,800	219,720
Payments for fractional shares of Provo Gas Producers Limited	—	105,011
	24,793,003	26,703,620
INCREASE (DECREASE) IN WORKING CAPITAL	$ 4,838,845	$(2,813,267)

CONSOLIDATED STATEMENT OF PAID-IN SURPLUS

YEARS ENDED DECEMBER 31, 1968 AND 1967

	1968	1967
BALANCE AT BEGINNING OF YEAR	$13,031,698	$12,869,262
Premium on shares issued for cash	99,544	162,436
BALANCE AT END OF YEAR	$13,131,242	$13,031,698

See accompanying notes.

DOME PETROLEUM LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1968 AND 1967

ASSETS	1968	1967
CURRENT:		
Cash	$ 1,537,764	$ 1,495,838
Short term deposit and marketable securities at cost which approximates market	990,421	1,409,592
Accounts receivable	5,053,140	4,630,514
Inventories—		
Products and merchandise at the lower of cost or net realizable value	1,293,156	966,140
Materials and supplies at cost	474,951	573,814
Prepaid expenses	463,658	398,611
	9,813,090	9,474,509
PROPERTY, PLANT AND EQUIPMENT (Note 3)	104,316,427	90,237,691
OTHER:		
Sundry investments at cost	909,607	419,655
Financing, market development and preproduction expenses less amounts written off	562,569	595,891
Deposits, mortgages and advances	668,274	826,636
	2,140,450	1,842,182
	$116,269,967	$101,554,382

See accompanying notes.

AUDITORS' REPORT

To the Shareholders of
Dome Petroleum Limited.

We have examined the consolidated balance sheet of Dome Petroleum Limited and its subsidiaries at December 31, 1968 and the consolidated statements of income, paid-in surplus, earned surplus and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances, except that, for

LIABILITIES

	1968	1967
CURRENT:		
Bank loans (Note 4)	$ 3,200,000	$ 3,000,000
Accounts payable	3,033,883	3,618,508
7% Debenture	—	3,000,000
Accrued interest on long term debt	401,354	352,169
Current instalments of long term debt	3,483,762	4,648,586
	10,118,999	14,619,263
LONG TERM DEBT (Note 5)	38,227,981	29,270,119
SHAREHOLDERS' EQUITY (Note 6):		
Capital—		
Authorized — 5,000,000 shares of a par value of $2.50		
Issued — 3,356,865 shares (1967 — 3,324,677)	8,392,163	8,311,693
Paid-in surplus	13,131,242	13,031,698
Earned surplus	46,399,582	36,321,609
	67,922,987	57,665,000
	$116,269,967	$101,554,382

On behalf of the Board:

Clifford W. Michel, Director.

Director.

reasons of corporate policy explained in Note 2 to the financial statements, data regarding the Company's North Zama oil and gas reserves were not made available to us.

In our opinion, subject to such adjustment of the provisions for depletion and depreciation and of net income as would result from the inclusion of the North Zama reserves mentioned above, these financial statements present fairly the financial position of Dome Petroleum Limited and its subsidiaries as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
March 10, 1969.

CLARKSON, GORDON & CO.
Chartered Accountants.

1. Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries.

The accounts of the U.S. subsidiaries have been converted to Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange in effect at the year-end, fixed assets and long-term debt at the rates in effect on the dates of acquisition and income and expenses at the average rates for the year. The net exchange differential, which is not material in amount, has been included in income.

2. Accounting Practice

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit-of-production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided on the unit-of-production basis.

Additional drilling in the North Zama region of Alberta, which was first recognized as a significant discovery in 1966, was carried out during 1968. Because continuing exploratory operations are being conducted in conjunction with the acquisition of available Crown land, the Company has elected not to disclose reserves of oil and gas for this area or take them into account in computing the provisions for depletion and depreciation for the three years ended December 31, 1968. Accordingly, depletion and depreciation for these three years have been computed using the same rates per barrel as were used in 1965. The inclusion of the North Zama reserves would have resulted in a reduction in the provisions for depletion and depreciation for these years.

3. Property, Plant and Equipment

Details of the companies' property, plant and equipment are as follows:

	Gross investment at cost	*Accumulated depreciation and depletion*	*Net investment 1968*	*Net investment 1967*
Oil and gas properties	$ 76,441,605	$12,234,783	$ 64,206,822	$54,406,228
Plants, buildings and related facilities	36,935,143	10,604,405	26,330,738	23,772,256
Production and other equipment	16,876,826	3,097,959	13,778,867	12,059,207
	$130,253,574	$25,937,147	$104,316,427	$90,237,691

4. Bank Loans

Current bank loans of $3,200,000 are secured by assignment of accounts receivable and an undertaking to provide oil and gas security if requested.

5. Long Term Debt

Details of the companies' long term debt are as follows:

	Maturity	*1968*	*1967*
5¾% First Mortgage Serial Bonds—	1984		
Series A (U.S. $8,386,000)		$ 9,056,880	$ 9,401,428
Series B (U.S. $2,888,000)		3,104,600	3,222,545
6% First Mortgage Bonds subject to amortization fund—	1970		
Series A (U.S. $3,725,000)		4,026,725	4,324,000
Series B		819,000	862,000
6½% First Mortgage Bonds	1985	913,000	942,000
5% Convertible Income Debentures	1988	15,000,000	—
6% Series A Debentures	1970	3,353,598	3,254,938
6% Debentures Series A subject to sinking fund (no payment required in 1969)	1973	2,000,000	2,000,000
6% - 6¾% bank loans secured by producing properties	1972	6,944,365	12,996,690

Other long term obligations	411,144	583,905
	45,629,312	37,587,506
Deduct:		
Instalments due within one year included in current liabilities	3,483,762	4,648,586
Cash and investments held by amortization fund trustee	3,917,569	3,668,801
	7,401,331	8,317,387
	$38,227,981	$29,270,119

The 5% Convertible Income Debentures are secured by a floating charge on all of the Company's undertaking, property and assets both present and future. The debentures are convertible at any time up to May 15, 1988, into common shares of the Company at $84.746 per share and are redeemable after May 15, 1973, at 105.

Approximate instalments of long term debt due in each of the five years subsequent to December 31, 1968 are as follows:

1969 — $3,484,000; 1970 — $6,874,000; 1971 — $2,470,000; 1972 — $2,431,000; 1973 — $1,267,000.

6. Capital

During 1968, 23,842 shares were issued in exchange for shares of Provo Gas Producers Limited, 4,574 shares were issued to officers and employees on exercise of options for $73,738 cash and 3,772 shares were issued on exercise of Stock Purchase Warrants of a subsidiary for $113,160 cash. The par value of the shares issued, $80,470, was credited to share capital account and the balance is reflected in paid-in surplus.

94,881 shares of the Company's capital stock were reserved at December 31, 1968 as follows:

70,802 shares for options granted to officers and employees to purchase shares at prices ranging from $12.80 to $56.75 per share exercisable on various dates to June 15, 1976.

7,869 shares for shares of Provo Gas Producers Limited not yet presented for exchange.

16,210 shares for the exercise of Stock Purchase Warrants of a subsidiary at $30.00 per share until September 30, 1970. Of these, 15,000 are exercisable in United States dollars.

7. Income Taxes

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges to earnings. As a result, no income taxes are payable in respect of earnings reported for the year ended December 31, 1968, and at that date, accumulated expenditures of $45,000,000 were available to be carried forward and applied against future taxable income. For 1968, capital cost allowances claimed are not significantly different from depreciation recorded in the accounts.

The companies do not consider it appropriate to provide for income taxes deferred as a result of claiming for income tax purposes drilling, exploration and lease acquisition costs, in excess of the related charges in the accounts and this view conforms with general practice in the oil and gas industry. This practice differs from the tax allocation recommendation of the Canadian Institute of Chartered Accountants that income tax be provided for on the basis of income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of $3,565,000 ($3,168,000 in 1967) would have been provided, and net earnings for the year would have been reduced accordingly. The accumulated deferred income tax provisions covering the current and prior years would have amounted to $15,182,000 at December 31, 1968.

8. Statutory Information

The total remuneration paid to the directors and senior officers (as defined by The Ontario Securities Act) amounted to $105,672 which includes $12,200 paid to directors. No directors' fees as such are paid.

Interest on long term debt for the year was $2,334,634.

TEN YEAR REVIEW

FINANCIAL

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE FIGURES)

YEAR	Gross Income (after royalties)	Operating Expenses	Cost of Product	General and Admin. Expenses	Interest	Cash Flow	Cash Flow per Share	Depreciation Depletion an Amortization
1968	24,561	5,322	1,905	361	2,521	14,452	4.31	4,374
1967	21,769	4,669	2,275	481	2,183	12,161	3.66	3,800
1966	17,848	4,165	1,665	520	1,780	9,718	2.94	3,295
1965	15,243	3,580	899	359	1,423	8,983	2.72	3,210
1964	13,708	3,174	336	340	1,187	8,672	2.63	2,902
1963	12,200	2,955	306	301	1,035	7,602	2.32	2,701
1962	10,181	2,389	180	237	1,084	6,292	1.92	2,570
1961	8,013	1,860	244	281	1,274	4,354	1.33	1,801
1960	6,632	1,709	256	268	1,210	3,188	.98	1,459
1959	5,575	1,489	167	340	908	2,671	.83	1,546

OPERATING

	PRODUCTION						RESERVES	
YEAR	Oil and Natural Gas Liquids (net bbls)	Average Daily Oil and N.G.L. (net bbls)	Gas (billion cubic feet)	Average Daily Gas (million cubic feet)	Average Daily Oil, N.G.L. and O.E.G. (net bbls)	Sulphur (long tons)	Est. Proved Oil and Condensate (net bbls)	Est. Proved Gas (billion cubic feet)
1968	6,259,450	17,102	51.8	141.6	24,615	13,841	73,300,000*	1,100*
1967	5,757,849	15,775	43.7	119.7	21,238	6,353	61,890,000*	1,011*
1966	4,972,284	13,623	37.2	101.9	18,280	3,700	59,267,000*	919*
1965	4,445,043	12,178	36.8	100.8	16,532	883	53,830,000	829
1964	4,203,161	11,484	35.7	97.5	15,896	661	50,769,000	793
1963	3,857,801	10,569	34.9	95.6	14,912	1,016	48,300,000	754
1962	2,967,233	8,129	35.1	96.2	12,543	2,339	44,600,000	770
1961	2,208,048	6,049	31.3	85.8	9,958	1,941	52,246,000	763
1960	2,039,078	5,571	21.7	59.3	8,275	1,397	45,093,000	731
1959	1,781,938	4,882	18.7	51.2	7,211	671	42,890,000	769

* *Excludes Zama and other confidential reserves.*

Net Income	Net Income per Share	Shares Outstanding	Long Term Debt	Land Rentals	Exploration Costs	Development Costs	Plants, Bldgs. and Related Facilities	Land Acquisition Costs
10,078	3.00	3,357	38,228	1,354	2,668	6,535	4,068	3,744
8,361	2.51	3,325	29,270	815	4,576	7,526	4,927	3,626
6,424	1.94	3,308	23,978	665	2,773	5,869	1,796	2,472
5,774	1.75	3,300	21,264	551	1,574	5,598	4,138	919
4,085	1.24	3,284	18,096	530	1,154	3,655	1,775	5,560
3,386	1.03	3,280	14,476	473	1,043	4,130	1,824	1,044
2,204	.67	3,276	13,133	446	1,072	3,462	3,278	1,809
1,741	.53	3,273	18,933	359	453	2,105	513	770
463	.14	3,257	14,854	367	900	2,590	84	266
110	.03	3,207	14,892	339	677	1,534	2,182	1,349

WELLS DRILLED						NET WELLS		ACREAGE	
Gross	Working Interest - Gross	Working Interest - Net	Royalty Interest	Exploratory - Gross	Step Out and Development - Gross	Oil	Gas	Gross	Net
134	116	87.3	18	82	52	414	168	19,593,390	15,931,523
102	88	68.5	14	54	48	359	131	13,268,294	11,003,613
104	97	67.0	7	49	55	335	117	7,504,166	5,212,851
100	88	65.7	12	37	63	309	99	6,064,597	3,829,128
70	61	43.1	9	22	48	269	83	6,745,955	4,194,810
66	64	41.0	2	8	58	237	79	6,763,610	4,204,095
54	54	32.7	—	16	38	200	75	6,570,663	3,988,641
31	26	15.9	5	7	24	196	66	4,427,385	3,457,813
74	61	33.7	13	19	55	175	57	4,109,215	3,283,815
42	37	21.6	5	16	26	158	51	5,431,596	4,495,235

N.G.L. — Natural Gas Liquids   O.E.G. — Oil Equivalent of Gas

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